



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 15-May-2019 | Report No: PIDISDSC24694



BASIC INFORMATION

A. Basic Project Data

Country Pakistan	Project ID P161402	Project Name Competitive and Livable City of Karachi Project	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 14-May-2019	Estimated Board Date 27-Jun-2019	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice
Financing Instrument Investment Project Financing	Borrower(s) Islamic Republic of Pakistan	Implementing Agency Local Government Department, Government of Sindh, Province of Sindh, Excise & Taxation Department, Government of Sindh, Investment Department, Government of Sindh	

Proposed Development Objective(s)

To improve urban management, service delivery and the business environment in Karachi

Components

Performance-based Grants to Local Councils and Capacity Building
 Modernizing Urban Property Tax Administration and System
 Improvement of City Competitiveness and Business Environment
 Technical Assistance for Solid Waste Management
 IBRD Front-end fees

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	240.58
Total Financing	240.58
of which IBRD/IDA	230.00
Financing Gap	0.00



DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	230.00
--	--------

Non-World Bank Group Financing

Counterpart Funding	10.58
Borrower/Recipient	10.58

Environmental Assessment Category

B-Partial Assessment

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Pakistan, the sixth most populous country in the world, is at a crossroads.** The economy accelerated with GDP growth of 5.8 percent in FY18 but is projected to slow to 3.4 percent in FY19 as fiscal and external imbalances are addressed. Poverty declined from 64.3 percent in 2001 to 24.3 percent in 2015, but inequality persists. The country ranks low on the 2018 Human Capital Index, at 134 out of 157 countries. Gender disparities continue, and female labor force participation was only 20.1 percent in 2018. Natural disasters and unreliable water and power supply constrain progress. After the onset of another boom and bust cycle, a new IMF program is under discussion. Growth is expected to gradually recover as structural reforms take effect and macroeconomic conditions improve. Pakistan will need to protect its poor and those just above the poverty line in the next few years through targeted safety nets. Over the medium to long term, Pakistan needs to invest more and better in human capital, raise more revenue, simplify ease of doing business, expand regional trade and exports, and manage its natural endowments sustainably.

2. **Karachi with an estimated population of 16 million¹, is Pakistan’s largest city, economic financial hub and main port.** It contributes 15 percent of national GDP and the largest share of national tax revenues, industrial employment, manufacturing and high-end services². The city dominates the economic landscape of Sindh, with nearly all of the province’s industrial and service economy and the majority of its labor force. It has the potential to be the engine of economic growth for the country, given its size, location, and industrial and human capital. In recent decades, however, the city’s livability and competitiveness have declined. It now ranks 137 out of 140 cities globally for livability. In the recent decades access to basic infrastructure and services have declined. Nearly half its residents live in informal settlements (“*katchi abadis*”), only half the city’s water demands are met; public

¹ Population of Karachi Division (containing six Districts of Karachi) as per provisional summary of national Population Census 2017.

² World Bank, Transforming Karachi into a Livable and Competitive Megacity: A City Diagnostic and Transformation Strategy, Washington DC, 2018;



transport has deteriorated; and pollution is severe. Karachi is also one of the most disaster vulnerable districts in Pakistan. Nonetheless, a substantial reduction in violent crime has been achieved through concerted government efforts.

3. The Karachi City Diagnostic and Transformation Strategy identifies infrastructure gaps of over \$9 billion in public infrastructure. Institutional strengthening and investments aiming to enhance livability, competitiveness and sustainability have emerged as priorities for Karachi. The [Karachi Neighborhood Improvement Project](#) (KNIP), currently under implementation, aims to upgrade three neighborhoods and to improve ease of doing business in Karachi to strengthen citizen-state confidence and show early wins. Building on this, additional interventions in urban management and competitiveness, water supply and sewerage, and urban mobility and transport are being considered with support from the World Bank Group (WBG), Asian Development Bank (ADB) and Asian Infrastructure Investment Bank (AIIB). Maximizing Financing for Development approaches will be used to crowd in commercial financing as well.

Sectoral and Institutional Context

4. Karachi's livability and competitiveness are impacted by are four interlinked constraints: (a) Very low institutional capacity due to institutional fragmentation, nascent systems, and unclear and overlapping responsibilities; (b) Poor and declining basic service delivery, as seen in poor quality and coverage of all basic services, with particular constraints in solid waste management (SWM); (c) Limited financing for the city and inadequate capital investment due to poor own-source revenue (OSR) generation, very low cost-recovery for services and major constraints to private investment in infrastructure and services; and (d) Onerous and opaque business environment constraining private sector investment and operations.

5. Karachi's management and service provision are hampered by large financial, technical and institutional challenges faced by local entities. Municipal functions are divided among Karachi Metropolitan Corporation (KMC) (for the entire urban area of Karachi) and six District Municipal Corporations (DMCs), each covering a district of the city. Rural areas of Karachi are covered by a separate local council, namely the District Council. There is no formal coordination mechanism between all these local councils (LCs). Basic systems are weak and revenues are inadequate, with a high dependence on fiscal transfers from Government of Sindh (GoS). Their mandates are limited, with GoS in the recent past taking over (or "recentralizing") a number of municipal services and functions under its direct control. While collection rate for daily waste generation has seen improvement in the last few years, there is still a large backlog of waste. Weak solid waste management (SWM) also increases the risk of flooding due to substantial dumping of waste in the city's drainage network, leading to flooding during the monsoon season.

6. Public sector spending is well below what is needed to meet the city needs, and there is a weak institutional framework to mobilize private investment to fill this gap. The Bank estimates that Karachi needs around US\$9-10 billion over a decade to meet needs in urban transport, water, wastewater and SWM. Existing public spending on capital infrastructure in Karachi by GoS agencies and LCs is far below that. A key reason for perennially low financing is weak sources of stable revenue. Revenue from the Urban Immovable Property Tax (UIPT) is extremely low compared to its potential. Capacity to identify and structure commercially viable projects to crowd-in private investment is also limited.

7. The business environment in Karachi is significantly hampered by weak and fragmented regulatory governance. The private sector is required to deal with multiple regulatory agencies at the provincial and municipal level to register a business, secure licenses/permits to initiate operations, maintain licenses, and to comply with regulations governing various inspections. Almost all regulatory processes are manual and paper-based with minimal automation, leaving considerable room for discretion and creating significant uncertainty in



the business environment. Karachi accounts for 65 percent of total weightage in Pakistan’s rankings on the Bank’s Doing Business (DB) rankings. Currently it takes 10 procedures, 17 days and 7 percent of per capita income to start a business in Karachi, much higher than South Asian average. GoS has started to respond to private sector demands to facilitate private investment by introducing reforms to streamline regulations and processes which govern investment and business operations in the city. This has led to an improvement in Pakistan’s DB ranking which improved 11 positions (from 147 to 136) in 2019, the first significant improvement in 11 years. Despite these improvements, further reforms are needed to improve city competitiveness.

8. Weak systems and fragmentation of land and service delivery mandates between various tiers have enabled large-scale encroachment of public land in recent decades. Informal settlements and squatters are widespread, including residential and commercial encroachers on vacant lands, sidewalks, public spaces etc. A major Anti-Encroachment Drive (hereafter referred to as “AED”) was initiated in Karachi in October 2018 on the order of the Supreme Court of Pakistan. The Court ordered to vacate public spaces (parks, footpaths, amenity plots, etc.) across the city from unauthorized uses and occupations. The order is currently under implementation by various civic and local agencies, including KMC, who are required to report periodically to the Court on progress. The focus of the AED is on commercial activities encroaching public spaces. Thousands of businesses, street vendors and hawkers have been affected, primarily in the most commercial districts³. Acknowledging the adverse impacts of AED on the poor and vulnerable groups, GoS and local agencies like KMC are making efforts to relocate some affected businesses.

9. This proposed project will seek to address some of the identified critical constraints in Karachi to improve its livability and competitiveness. It will do so through the following interventions: improving institutional capacity and performance of Karachi LCs and selected agencies such as SSWMB; optimizing allocation of scarce public resources by fostering greater private investment in city infrastructure and services; improving the business and investment environment for private sector; enhancing municipal service delivery in an integrated way involving key institutions; and setting the base for sustainable city financing.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To improve urban management, service delivery and the business and investment environment in Karachi.

Key Results

PDO Level Indicators

- i. Number of People provided with improved urban living conditions (disaggregated by gender) [this is a WB Corporate Results Indicator for Urban projects and counts the number of people directly benefitting from project-financed improvement in municipal services and infrastructure];
- ii. Score in the Annual Performance Assessment showing achievement of local institutional and capacity improvement of local councils, averaged across all qualifying local councils (maximum of 100);
- iii. Number of business registrations and licenses secured annually through the Sindh Business Portal.

³ The Bank’s Policy on Involuntary Resettlement, OP4.12, requires provisions to compensate or rehabilitate displaced persons and allow for compensation of loss of livelihood. The design of this project is fully informed by the implications of the ongoing AED, and comprehensive measures have been put in place to avoid and mitigate risks, consistent with Bank policies, and to increase capacity of LCs and GoS to conduct more inclusive development going forward.



D. Project Description

10. Karachi faces substantial challenges on urban management, service delivery and business environment, which this project cannot alone fully resolve. The project will begin to address these constraints by selectively tackling critical bottlenecks. While the scale and complexity of challenges is significant, it aims to tackle some of these constraints in an incremental and systematic way through selected interventions. Activities under the project will help put the city on a long-term path towards achieving adequate service provision and a competitive business environment. In this context of incremental improvements, the project includes the following four components:

Component 1: Performance-based Grants to Local Councils and Capacity Building (WB financing: US\$160.0 million):

11. This component will provide annual performance-based grants to Karachi's local councils (LCs), namely KMC, District Council and six DMCs, upon achievement of specified institutional strengthening measures every year. It will incentivize LCs to improve basic urban management capacity and enhance city competitiveness, with LCs using these grants to implement subprojects for provision of infrastructure and services within their mandate, in line with needs of citizens and businesses. To assist LCs in achieving the institutional strengthening measures, and to manage and implement the performance grants system, this component will also provide centralized capacity building and project implementation and management support through the Local Government Department (LGD) of GoS. The infrastructure and services subprojects to be financed will be selected on the basis of a comprehensive screening and risk reduction procedure.

Sub-component 1.1: Performance-based Grants to Karachi local councils:

12. This sub-component will provide three types of annual grants to participating and eligible LCs as incentives to incrementally improve their urban management and institutional capacity, including one capacity building grant to address basic capacity needs identified by LCs and two capital infrastructure grants as incentive to achieve progressively more advanced institutional capacity measures. Capital infrastructure grants will be introduced in a phased manner, beginning from the second year of the project, once assurance is obtained of certain basic acceptable systems being in place at LCs, including safeguards management and inclusive development. In the first year of the project, only the capacity building grant will be available, with the capital infrastructure grants being available from the second year. The achievement of performance measures by LCs annually will be verified by an Annual Performance Assessment (APA), to be conducted by an independent third party. The APA process will be managed by LGD. The rationale and structure of these three types of grants is as follows:

- a. **Minimum Conditions Capital Infrastructure grant:** This grant aims to build a basic level of institutional systems in LCs in the areas of financial management (FM), procurement, and social and environmental management as required by Bank policies. LCs will be able to access this grant upon achieving specified Minimum Conditions (MCs) annually, all of which must be fulfilled for a LC to qualify for any infrastructure grant. The MCs grant will be available from the second year of the project. MCs will focus on the following areas: (a) systems for social and environmental management including screening subprojects to avoid major social, environmental and climate impacts, and social / resettlement and environmental assessments and management plans to mitigate potential residual risks of subprojects; and (b) basic procurement and FM processes, including requirement for non-disclaimed audits.



- b. **Performance Measures Capital Infrastructure grant:** This grant aims to incentivize LCs to achieve more advanced institutional improvement and will be accessible upon achieving specified Performance Measures (PMs) annually, which build on the foundations laid by the MCs. The size of this grant is the largest as it is based on more advanced institutional measures. It will be available from the third year of the project, with LCs receiving amounts in proportion to their performance. PMs focus on improvements in the following areas: (a) capital investment planning, including subprojects which address needs identified by women; (b) systems for procurement, FM and expenditure performance; (c) competitiveness and business environment, including streamlined business permitting within the mandate of LCs; (d) own-source revenue enhancement; (e) engagement with citizens, especially women, and private sector in capital investment planning; and (f) access to information and grievance redress systems for citizens and local businesses.
- c. **Capacity Building grant:** This grant will assist LCs to address capacity needs as identified by them, and will be available from the first year of the project. LCs will be able to access this grant upon achieving simple Access Condition every year and will have discretion on the use of this grant, in accordance with outlined procedures.

13. **LCs will use the capital infrastructure grants to execute infrastructure and services subprojects within their mandate, as per a screening criteria and other procedures described below.** LCs will be responsible for design and implementation of subprojects in compliance with the Bank's policies on procurement, FM, anti-corruption and social and environmental safeguards. Selection, design and implementation of each subproject will be based on a set of screening criteria as part of a "Project Risk Reducing Procedure" (PRRP), a multi-level screening process that has been built into project design to avoid project-related social risks, especially associated with the ongoing AED, and ensure compliance with the Bank's social safeguards policies, specifically the policy on Involuntary Resettlement (OP 4.12).

14. Only subprojects located in areas that have not been impacted by the AED will be eligible for financing under this project. If the proposed subproject is determined eligible, the screening mechanism will further determine the types of subproject-specific safeguard instruments to be prepared and implemented, depending on the nature, scale and scope of the proposed subproject. Selection, design and implementation of all subprojects is subject to full compliance with the project's Social Management Framework (SMF), which includes a Resettlement Policy Framework (RPF); as well as the project's Environmental Management Framework (EMF). The SMF/RPF and EMF have been disclosed on the websites of LGD and WB. The screening criteria and PRRP are summarized below and further described in the project's SMF/RPF and EMF:

- a. Potential subproject sites (including proposed construction sites and associated zones of impact) located within areas impacted by the AED after October 2018 will not be eligible for financing under the project. Where eligible, a screening will determine the relevant safeguard instrument to be prepared. Projects with land acquisition and large social or environmental impacts will be screened out. Subprojects will be grouped into the following categories: 1) public buildings and structures such as health and education facilities, public toilets, fire control stations, community facilities and other buildings operated by LCs; 2) non-linear public spaces, such as public parks and public markets; and 3) linear local road and drainage, and associated infrastructure and facilities such as streetlighting, sidewalks etc.
- b. Once project implementation begins, any AED activities in the selected areas will have to comply with the provisions of the Bank's safeguards policies as per the SMF/RPF and EMF. The PRRP will also ensure a one-year time lag before subproject implementation to allow the project to track the



progress of the AED and allow for capacity building for LCs to manage social and environmental risks. The project will also ensure third party monitoring, public disclosure of sites selected for proposed subprojects, and a robust communication and stakeholder engagement plan. A multi-level Grievance Redress Mechanism (GRM) will be established. The project will also include Technical Assistance (TA) to formally recognize, regulate and register the street economy and mobile vendors across the city, including digital platform for registration of mobile vendors, as well as additional support for a city-wide approach of addressing resettlement and rehabilitation issues. Compliance with the Bank's safeguards policies and the preparation and implementation of safeguards instruments, as per procedure outlined in the project's EMF and SMF/RPF, are also a requirement under the project, as per the General Conditions of the Legal Agreement between the Bank and the Governments of Pakistan and Sindh for this project. To highlight the PRRP as a critical part of this project's design and safeguards instruments, the Legal Agreement also explicitly defines and makes reference to the PRRP. The Agreement includes covenants related to compliance with safeguards instruments (EMF and SMF/RPF), and in particular, the PRRP screening mechanism related to the AED. It also requires that Bank financing is contingent to the government's compliance with the PRRP.

15. LCs will prepare Annual Work Plans listing all planned expenditures and subprojects against the grants. These Plans along with the associated social and environmental management instruments will be submitted to the Bank for review and concurrence before any works can commence. An indicative list of eligible expenditures is the following:

- a. **Types of eligible expenditures / subprojects for Capital infrastructure grant:** LCs will use the capital infrastructure grants to execute infrastructure and services subprojects within their mandate including Local Roads and associated infrastructure; Drainage; Parks and Public Spaces; Public Buildings, Markets and public toilets; Health and Education Facilities and Fire and Disaster Management services.
- b. **Eligible expenses for Capacity Building grant:** various consultancy services; office furniture and equipment (including IT equipment and networks); small scale office rehabilitation and improvement, especially for providing separate, equipped, functioning toilets for women staff at offices and buildings having large concentration of LC women employees; and local training of elected councilors and staff.

Sub-component 1.2: Technical Assistance and performance grants implementation and management:

16. This sub-component will support LGD of GoS to coordinate, manage and administer the performance-based grants system under sub-component 1.1, and to conduct preparatory studies to improve service delivery in Karachi. This sub-component will finance the following activities to be executed by LGD: (a) managing a package of centralized TA and capacity-building support to participating LCs to assist them in achieving the MCs and PMs, especially support for the development of critical systems to achieve these measures; (b) administering the APA process through an independent private entity in a timely manner; (c) providing assistance to LCs in screening, selection, design, supervision and monitoring of subprojects as requested by LCs, and in the preparation and implementation of environment and social management plans for LCs' subprojects if required, consistent with screening procedures (e.g. PRRP) and with safeguards instruments ; (d) ensuring timely flow of grant funds to LCs as per their respective determined shares; (e) training to elected women councilors of LCs on leadership and gender-responsive investment planning; and to LC staff on harassment of women at the workplace, and associated regulations on prevention; (f) preparatory studies to improve service delivery which may be considered under future projects; (g) technical assistance for a program to formally recognize, regulate



and register the street economy and mobile vendors across the city, in line with global models and good practices, and additional support for a city-wide approach of addressing resettlement and rehabilitation issues based on demand; and (h) monitoring and consolidated progress reporting to the Bank for Component 1. To coordinate and administer the performance-based grants system, LGD will develop and notify various systems and processes required to achieve MCs and PMs, and these shall be adopted by participating LCs.

Component 2: Modernizing Urban Property Tax Administration and System (WB financing: US\$40.0 million)

17. This component will support modernization and improvements to the Urban Immovable Property Tax (UIPT) system in Karachi by financing the following activities: the carrying out of an all-Karachi property survey to update the property tax database (“fiscal cadaster”); development and upgradation of IT systems to house the property tax database / fiscal cadaster information and associated trainings to run and operate these systems; capacity building of all relevant staff; carrying out of taxpayer sensitization and outreach efforts; development of IT systems to facilitate taxpayers, including internet-based information, billing and payments; and reviews of relevant legislation or regulations on all aspects of UIPT, including tax policy and institutional structure for this tax. Reviews will also focus on identifying any facilitation which may be provided to women property owners.

Component 3: Improvement of City Competitiveness and Business Environment (WB financing: US\$20.0 million):

18. This component will support improvements to the business environment in Karachi and build capacity at the local government level to crowd-in private investment for the provision of improved city infrastructure and services through enhanced capacity to develop bankable projects.

19. *Sub-component 3.1: Streamlining and integrating Business Regulations for City Competitiveness:* This sub-component will support the recently-established Sindh Investment Department (SID) to improve the business environment for private sector investment by streamlining and integrating key regulatory processes, including through the following: (a) regulatory process mapping and development of a registry of business licenses and permits issued by selected regulatory bodies; (b) development of an online portal and associated facilities to automate and integrate regulatory processes of selected agencies to facilitate businesses; and (c) studies to address constraints to private financing of infrastructure.

20. *Sub-component 3.2: Establishment of PPP node at LGD:* This sub-component will support LGD for the establishment and operations of a node for the origination of public private partnerships (PPPs). This PPP node at LGD will act as PPP origination arm of all agencies operating under LGD and will help create an enabling framework for private investment in municipal services and infrastructure. The Node will conduct the following activities: (a) provide relevant technical assistance (TA) to all local agencies under LGD; (b) undertake pre-feasibility studies in consultation with PPP Unit in GoS Finance Department for potential PPPs for local agencies.

Component 4: Technical Assistance for Solid Waste Management (WB financing: US\$10.0 million):

21. This component will support LGD and the Sindh Solid Waste Management Board (SSWMB) to improve the performance of the SWM sector in Karachi and SSWMB as an institution, through a set of technical assistance activities addressing critical identified challenges, and to contribute to the formulation of a long-term investment strategy. Activities include: (a) TA for policy and regulatory development for SWM sector, including financial sustainability, cost recovery, options for private financing, and management and characterization of waste, including regulations and systems to reduce plastic waste and manage hazardous waste streams; (b) capacity building of SSWMB including trainings, data management and performance monitoring systems, and improving



efficiency of SWM; (c) technical, environmental and social baseline studies for existing SWM facilities and infrastructure and options for development of additional facilities, and options to better integrate existing informal sector; and (d) social sustainability, public awareness and behavior change activities focusing on community-level engagement and baseline study for community-level job creation in SWM, including steps for the professionalization of the waste sector.

E. Implementation

Institutional and Implementation Arrangements

22. **Inter-agency Steering Committee:** An inter-departmental Steering Committee will provide overall strategic oversight of the project and review implementation progress on a regular basis. It will have high-level representation from relevant agencies participating in the project. Its responsibilities will be as follows: a) to provide overall strategic oversight for project implementation and ensure sustainability of project interventions; b) to facilitate inter-agency coordination; c) to resolve disputes or conflicts related to the project, if any; d) to approve any policy, regulatory and institutional recommendations from the project; and e) to facilitate timely availability of GoS share of project financing, if any, and timely approvals for project-related matters pertaining to agencies included in the committee, where relevant.

23. The following GoS Departments will be responsible for project implementation: Local Government Department (LGD), Excise & Taxation Department (E&TD) and Sindh Investment Department (SID). LGD will be responsible for coordinating and managing the performance-based grant system and providing centralized TA support to LCs. It will provide various TA activities to assist LCs in achieving the performance conditions. A Project Management Unit (PMU) will manage these functions on behalf of LGD. LGD will also implement activities under Component 4 on behalf of, and in close coordination with, SSWMB. SSWMB is a statutory body with its own Board but is administratively attached to LGD. LCs will directly implement subprojects under Performance-based grants (Sub-component 1.1) and undertake all measures to achieve performance measures. E&TD and SID will implement Components 2 and 3.1 respectively.

24. **Summary of implementation and institutional arrangements for managing environmental and social impacts and risks:** LGD will play a central role in ensuring that LCs apply and implement the PRRP and its associated procedures in the screening, selection, design and implementation of subprojects. It will ensure compliance with the Bank's safeguards policies and the project's EMF and SMF/RPF. It will manage and provide a package of centralized technical assistance (TA) and capacity-building support to LCs to assist them in achieving the MCs and PMs, and support for the development of critical systems to achieve these measures – including systems for environmental and social safeguards management, and on investment planning, citizen engagement and access to information. It will hire an independent private entity to administer the APA process to assess the performance of LCs in achieving MCs and PMs. It will provide assistance to LCs in screening, selection, design, supervision and monitoring of subprojects, through in-house expertise and by hiring consultancy services. It will also provide assistance to all LCs in the preparation and implementation of environment and social management plans / safeguard instruments for LCs' subprojects consistent with the screening procedures (e.g. PRRP) and with the EMF and SMF/RPF. LGD will also engage consultancy services for third party monitoring of progress of subproject implementation (including compliance with PRRP and with safeguards instruments); and for development and implementation of a communication campaign based on a stakeholder engagement strategy to raise awareness of the scope and impacts of the project. LGD will also submit consolidated subproject proposals to the Bank for review and no-objection, on behalf of all LCs.



F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

Karachi Division (estimated population of 16 million) is located just above the tropical zone on the coast of the Arabian Sea at about 20 m above sea level. The city is bounded by the Hub River (west), Badin District (east), Dadu District (north) and Arabian Sea (south). It covers an area of approximately 3,600 km², comprised largely of flat or rolling plains, with hills on the western and northern boundaries of the urban sprawl. The climate can be dry, hot and humid. There is a minor seasonal intervention of a mild winter from mid-December to mid-February followed by a long hot and humid summer extending from April to September, with monsoon rains from July to mid- September. Karachi city is the metropolitan urban area of Karachi Division, having estimated population of 14.9 million. It is a dense city with population density of about >20,000 people/km². Indus River and Hub Dam on the Hub River are the two major sources of surface water for the city. It obtains its drinking water from the Indus River about 120 km to the east and the Hub River about 56 km in the west. Some limited groundwater is extracted for private use in the Karachi area, but groundwater resources are limited. Over the last three decades, the expansion of the city’s water supply system has lagged the fast-growing water demand of the city due high population growth rates (4 to 5% per annum). Emission of untreated effluent from industries that do not meet the Sindh Environmental Quality Standards (SEQS) results in considerable environmental pollution. There are about 24 large and small industrial complexes in the province. The main reasons for pollution in coastal waters are indiscriminate discharges of untreated industrial and domestic effluent, shipping traffic, mechanized fishing fleet and oil terminals at Karachi harbor. World Health Organization (WHO) included Karachi amongst the top 20 polluted cities of the world with respect to outdoor ambient air pollution levels measured as PM10 and PM2.5. Annual mean concentrations of PM10 and PM2.5 in Karachi are 273 µg/m³ and 117 µg/m³, respectively. The severe air, water and solid waste pollution in the city constitutes a serious health risk to a large proportion of residents.

G. Environmental and Social Safeguards Specialists on the Team

James Orehmie Monday, Environmental Specialist
Imran-ul Haq, Social Specialist
Najm-UI-Sahr Ata-Ullah, Social Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	Capital investment subprojects under Component 1.1 will involve civil works, through capital grants to LCs for infrastructure and municipal services within



their mandates, such as secondary storm water drains, roads, street lights, parks, markets etc. Environmental impacts would mostly be construction related, e.g. management of spoil and removed dredged material, dust and public safety issues involving pedestrians and road traffic. These impacts will be temporary and not widespread and can be readily avoided by design changes and modifications, or readily available and effective mitigation measures.

Subprojects that will have significant negative environmental or social impacts that are sensitive, diverse or unprecedented will be excluded from the project. LGD has prepared an required Environmental Management Framework (EMF) to ensure compliance of environmental safeguard requirements of the national laws and Bank's safeguard policies for those subproject activities that are not yet defined and / or whose locations are unknown at the time the Bank appraises the project. When the sub projects are identified during implementation, the EMF requires the preparation of Environmental Management Plans (EMPs) and Social Management Plans (SMPs) if needed.

Similarly, a Social Management Framework (SMF) has been prepared for the project and for investments which will be identified during implementation. It includes all required frameworks (including a Resettlement Policy Framework (RPF) and provides guidance on managing social issues such as labor, gender, stakeholder engagement, grievance redress mechanisms etc. EMPs and SMPs covering risks and impacts (positive and negative) beyond those associated with land acquisition and resettlement and including those related to gender, inclusion of marginalized and vulnerable groups and communities (elderly, disabled persons etc.), informal sector workers and businesses (hawkers, mobile vendors etc.) citizen engagement etc. will be prepared, consulted on, cleared, and publicly disclosed in line with the SMF and EMF, once the physical footprint and design of each subproject has been determined.



		The SMF and EMF have been consulted upon publicly (involving all stakeholders at the project level), cleared by the Bank, and disclosed prior to Bank appraisal. The full SMF and EMF in English, as well as the translations of their executive summary in local language (Urdu), are available on websites of LGD and the Bank.
Performance Standards for Private Sector Activities OP/BP 4.03	No	Not relevant.
Natural Habitats OP/BP 4.04	No	The project will not impact natural habitats as defined by the policy.
Forests OP/BP 4.36	No	The project will not impact forests as defined by the policy.
Pest Management OP 4.09	No	The project does not involve pest management.
Physical Cultural Resources OP/BP 4.11	Yes	The project will not support rehabilitation of any cultural heritage assets. However civil works may involve excavations with the potential for chance discoveries of physical cultural resources. Also, lesser known monuments or physical cultural assets may be present in areas where civil works take place. The EMF includes guidelines for identification of physical cultural resources and “chance find” procedures for protection of cultural property from any impact due to civil works, as well as mitigation measures to ensure sub-projects that impact physical cultural resources comply with the requirements of this policy.
Indigenous Peoples OP/BP 4.10	No	Indigenous People are located only in the Kalash valley, Chitral District, which is in the Khyber Pakhtunkhwa province. Therefore, no IP communities will be affected by the project.
Involuntary Resettlement OP/BP 4.12	Yes	While the nature of investments does not involve large-scale land acquisition and resettlement, some small-scale land acquisition may be required. The subprojects will be executed in a dense urban environment with informal businesses, vendors, hawkers, etc. and may require small-scale resettlement. There may also be livelihood impacts for businesses (e.g. due to temporary restrictions in access during construction) and hawkers and mobile vendors. Hence, OP 4.12 is triggered. The project SMF also includes a RPF which provides guidance on management of issues related to land acquisition, resettlement, and impacts on livelihood



(temporary and permanent). The SMF / RPF will be consulted upon, reviewed and cleared by the Bank, and publicly disclosed in-country (on LGD websites) and by the Bank prior to project appraisal.

While project works will not have any major and irreversible impacts, social risks to the project associated with the ongoing citywide anti-encroachment drive (AED) in Karachi following the Supreme Court of Pakistan's order to remove encroachments on October 27, 2018 presents a substantial risk to the project.

A screening mechanism in the project design has been developed to exclude areas of intervention that have been impacted by the AED. Only sub-project sites as well as associated zones of impact located in areas that have not been impacted by the AED are eligible for financing under the project. If AED-related activities are to be carried out in areas that have been selected for financing under the project, affected people will be compensated in a manner consistent with the Bank's resettlement policy. The RPF includes the screening mechanism, as well as the requirement of compensation in the event that such AED-related activities may take place after the selection of the subproject sites.

The SMF and RPF include a two staged mechanism for social screening of subprojects, as described in Box 1. In step 1, the screening will determine the interaction of the sub-project with the AED to determine the eligibility of the sub-project. If found eligible, in step 2, the screening mechanism will determine the type of safeguard instruments to be prepared. The RPF will guide the preparation (if required) of Social Impact Assessments (SIAs), Resettlement Action Plans (RAPs) / Abbreviated Resettlement Action Plans (ARAPs) for subprojects during implementation.

The SMF / RPF (and any subsequent RAPs / ARAPs or SIAs) will also includes specific reference to squatters, vendors, and hawkers, etc. and how to deal with them in accordance with Bank policy.



Safety of Dams OP/BP 4.37	No	The policy is not triggered as there are no dams involved in the project and project will not finance dam or dam-related investments.
Projects on International Waterways OP/BP 7.50	No	The project activities will not take place along international waterways which are shared with riparian countries, as specified in OP 7.50. Subprojects under Component 1 include city-wide small-scale municipal infrastructure in Karachi including rehabilitation and improvement of municipal roads, drainage, public spaces, public buildings, streetlighting etc. The project does not finance interventions related to water supply networks, which may impact international waterways such as the Indus River. In particular, subprojects financed by the project may undertake small-scale improvement in the city’s secondary and tertiary storm water drainage system and selected improvements in associated wastewater systems, under the mandate of local councils. These sub-projects will only affect local rivers within Pakistan and will not impact or rely upon International Waterways.
Projects in Disputed Areas OP/BP 7.60	No	This policy is not triggered as there are no known disputes over the project area.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Capital investment subprojects under Component 1 will involve civil works. These are expected to lead to positive environmental outcomes overall, provided the construction-related impacts are managed adequately and the capacity for environmental management of these investments at LCs are considerably strengthened.

While the project does not require large-scale land acquisition and resettlement, some small-scale acquisition of private land may be done under the project if required. Subprojects by LCs will be designed based on an inclusive process of public consultation and are intended to have a positive impact on communities. Given that the works will be executed in a dense and congested urban environment, civil works are likely to have temporary negative livelihood impacts during construction (due to restricted access; temporary relocation) on businesses and individuals including permanent and temporary markets; roadside shops; transporters; mobile vendors and hawkers etc. Some civil works may also lead to limited involuntary resettlement of some temporary markets, vendors, hawkers etc. Civil works will also entail the involvement of labor. However, no large-scale influx of labor or establishment of large labor camps is anticipated. Instead, locally available labor will be preferred.



Land ownership and control is institutionally fragmented with over a dozen public agencies at various tiers of government managing land, lacking formal coordination mechanisms. Weak systems and fragmentation of land and service delivery mandates between various tiers have enabled large-scale encroachment of public land in recent decades. Informal settlements and squatters are widespread in Karachi including residential and commercial squatters and encroachers on vacant lands, sidewalks, public spaces etc.

A major Anti-Encroachment Drive (hereafter referred to as “AED”) was initiated in Karachi in October 2018 on the order of the Supreme Court of Pakistan. The Court ordered to vacate public spaces (parks, footpaths, amenity plots, etc.) across the city from unauthorized uses and occupations. The order is currently under implementation by various civic and local agencies, including KMC, who are required to report periodically to the Court on progress. The focus of the AED is on commercial activities encroaching public spaces. Thousands of businesses, street vendors and hawkers have been affected, primarily in the most commercial districts. The conduct of the AED is not in accordance with the Bank’s policy on involuntary resettlement (OP4.12) as there are no provisions to compensate or rehabilitate squatters, vendors and hawkers who have been displaced or provide compensation for loss of livelihood. Acknowledging the adverse impacts of AED on the poor and vulnerable groups, GoS and local agencies like KMC are making efforts to relocate some affected businesses.

The project will only support sub-projects which can meet the standards and conditions of the Bank’s policy on involuntary resettlement and the multi-level PRRP developed for this project. The standards and procedures include, amongst other requirements, the following: as a first screening measure, any subproject investment located in a site affected by the AED will be explicitly excluded. Second, in the event that AED activities take place on a site after the site has been selected under a sub-project, all provisions of the Bank’s policy on involuntary resettlement will apply before that sub-project may be executed, including, amongst other requirements, compensation and (if applicable) rehabilitation of affected people including persons without land title, squatters, vendors, hawkers etc. in accordance with the entitlements prescribed in the project RPF and any subsequent RAPs. The SMF (and any subsequent RAPs will) also includes specific reference to squatters, vendors, and hawkers, etc. and how to deal with them in accordance with Bank policy.

Subprojects financed under this project may still have significant environmental impacts but will not be widespread, and therefore, can either be avoided by identifying alternative locations for activities and introducing changes in their design, or otherwise reduced to acceptable levels or reversed through the application of effective mitigation measures. These impacts are expected to arise during construction activities and to a much lesser extent during operations. The range of potential impacts, mostly occurring during construction and to a lesser degree during operations and maintenance stage, may include: (i) disposal and management of large quantities of contaminated spoils, sediments and wrongly discarded solid waste materials removed from storm water drains; (ii) loss of top soil, air pollution, soil erosion, and loss of aesthetic of the area due to clearing of the land for campsites and for construction activities; (iii) temporary air pollution resulting in poor visibility, loss of vegetation, soil contamination and health implications on workers and nearby community due to dust emissions and stack emission of generators and vehicular emissions; (iv) soil and water contamination, odor, health implications (due to breeding of mosquitos and flies), and nuisance due to improper treatment and disposal of sanitary wastewater from construction camps; (v) nuisance, health implications on workers and community (due to breeding of mosquitos and flies), if solid waste is not disposed and treated properly; (vi) soil contamination due to improper disposal of contaminated solid waste and improper placement of oily parts, rags, chemicals, and lubricants; (vii) nuisance, health implications on workers and nearby community, loss of biodiversity due to noise from the construction activities, machineries and vehicles; (viii) Occupational Health and Safety (OHS) hazards for workers and communities; and (ix) traffic congestion at or around



construction sites due to construction activities.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
N/A

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

The Bank and GoS agencies (LGD and participating LCs) spent considerable time exploring alternative project design for component 1 to ensure the potential environmental and social risks associated with chosen subprojects eligible for financing are commensurate with the capacity of these LCs implementing these sub projects. In particular, the robust Minimum Conditions for Capital Infrastructure Grants to LCs include stringent conditions to ensure subprojects eligible for financing by LCs have acceptable risks. More importantly, the proposed risk reduction procedures built into the project design reduce potential risk and adverse impacts in particular related to AED.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The project design avoids investments with substantial social risks and includes measures to address and mitigate remaining social risks. Subprojects to be financed under Component 1 will be designed based on an inclusive process of public consultation and are intended to have positive effects on the target communities by improving livability. Given that most civil works will be executed in a dense and congested urban environment, they are likely to have some temporary negative livelihood impacts on businesses and individuals during construction (due to restricted access, temporary relocation etc.) including markets, transporters, mobile vendors/hawkers etc.

To avoid social risks associated with ongoing AED, a multi-level PRRP has been built into project design, which explicitly excludes any subproject investment located in a site affected by the AED (See Box 1 for details). The PRRP, agreed with the GoS, includes a set of screening criteria for the selection, design and implementation of infrastructure and services subprojects to be financed by Capital Infrastructure Grants to LCs. In addition to the screening mechanism, the PRRP includes measures to strengthen capacity for social safeguards of LCs, to support monitoring and coordination related to AED, to improve public information and communications related to project, to support a multi-level GRM system, among others.

To mitigate additional potential social risks associated with the infrastructure subprojects to be financed under Component 1, an SMF, including an RPF to address any issues related to OP 4.12 (involuntary resettlement), was prepared by GoS. A framework instrument was required as the exact locations of project interventions have not been determined and will only be identified during the process of subproject selection by LCs. The PRRP is described in detail in the SMF. The SMF also includes: management frameworks for gender, vulnerability, stakeholder engagement and labor impacts during construction (including gender-based violence (GBV) and sexual exploitation and abuse (SEA)) and GRM. The SMF will inform the preparation and implementation of site-specific Social Impact Assessments (SIAs) / Social Management Plans (SMPs) and (if required) Resettlement Action Plans (RAPs) / Abbreviated Resettlement Plans (ARP) for subprojects. Project civil works will also entail the involvement of labor, but no large-scale influx of labor is anticipated due to the project. This will be further assessed during preparation of the subproject-specific documents and a management plan for labor will be prepared if needed. The SMF emphasizes compliance with Pakistan's labor laws and the Bank's "Guidance Note on Managing the Risks of Adverse Impacts on Communities from Temporary Project Induced Labor Influx" (in the event of labor influx induced by project civil works). No child or bonded labor will be engaged for civil works. The SMF and any SIAs / SMPs prepared during implementation will also provide measures to avoid and or mitigate the risk of GBV and SEA.



The project does not require large-scale land acquisition and resettlement. All land acquisition and resettlement carried out under the project, which will be of a small to modest scale, will be in accordance with the Bank's policy on involuntary resettlement, OP 4.12. No land acquisition will be financed from Bank funds and, if needed, land will be acquired by GoS using counterpart funds and in a manner consistent with the Bank's policies and following the provisions of the RPF.

All sub-projects to be financed under the project will require prior review and no objection by the Bank to ensure compliance with defined criteria. Safeguards instruments, including the SMF/RPF, provide a detailed methodology for the screening criteria and mechanism. Extensive capacity building of LCs in the implementation of social and environmental safeguards, investment planning, citizen engagement and access to information are provided during project implementation. In particular, during the early implementation period, extensive training and capacity building of LCs will be done to ensure adequate expertise to prepare and implement safeguards instruments and to allow sufficient time for the Bank to ascertain the capacity of the various agencies to carry out their responsibilities as per the social and environmental safeguard instruments consistent with the Bank's safeguards policies, before specific subprojects can start. Subprojects will only commence in the second year of project implementation, after MCs are achieved met by LCs. The full allocation will be available to participating LCs only from the third year for subprojects, when PMs are achieved.

MCs will put in place basic requirements of social and environmental management at LCs and implementing the project SMF/RPF in a manner satisfactory to the Bank. The project will also support mechanisms to ensure coordination, at the GoS level, across institutions responsible for implementing the AED. The project will also have a robust monitoring system via third party monitoring, through a local NGO / CSO reporting to the Bank, to monitor the subproject selection process and implementation. Finally, the project will have in place a communications strategy based on stakeholder engagement, to raise awareness of the scope and impacts of the project; and support a robust multi-level GRM system to address potential grievances of affected population under the project.

Even though subproject activities are not expected to cause any long term or irreversible environmental impacts and as such the potential environmental impacts will be manageable, the implementation capacity of the LCs to apply the EMF satisfactorily remains low. The project has been designed to avoid potentially high environmental risks through the use of investment eligibility criteria built into the EMF. The project supports the strengthening of social and environmental risk management systems in LCs through extensive technical assistance and capacity building (under Component 1). The project design avoids investments with substantial environmental risks and includes measures to address and mitigate remaining environmental risks. Potential adverse environmental impacts from capital subprojects under Component 1 will be construction-related, temporary, will not be widespread and can be avoided by design changes and modifications, or via conventional and effective mitigation measures. High-risk subprojects with significant negative environmental or social impacts that are sensitive, diverse, or unprecedented will not be eligible for financing under the project. Adverse impacts will be avoided through environment impact screening of each proposed subproject, and where needed, design and implementation of Environmental Management Plans (EMPs) for all subprojects. The EMF includes all necessary guidelines for addressing environmental issues, including a screening mechanism to determine potential environmental impacts of proposed subprojects. Subproject-specific EMPs and all applicable safeguards instruments with estimated costs and environmental clauses will be incorporated in the procurement documents (bidding documents) of civil works. Environmental complaints will be integrated into a project-level Grievance Redress Mechanism (GRM) which will be developed.

Karachi LCs have very little or no experience of implementing an investment project financed by an international development agency. Whereas KMC has a strong engineering team, an institutional assessment highlights that at



present the institutional capacity of LC is insufficient to manage environmental and social safeguard requirements of the proposed project in line with Bank policies. The capacity of LCs to manage social risks, including engaging citizens in the process of project design and implementation, is low. While KMC has a functional complaints management system, its capacity and performance requires enhancement and streamlining. District-level LCs do not have a functioning grievance redress system. The project aims to substantially strengthen environmental and social safeguards capacity of LCs in the procedure described above, and these measures are based on the findings of an institutional and capacity assessment conducted during project preparation.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Karachi is the most diverse and pluraristic city of Pakistan, with a large variety of ethnic, religious and social groups. Since the geographic scope of the project is the entire urban area of the city, all citizen groups living across the city will be directly or indirectly impacted and are to be considered as key stakeholders of the project. Further, there are a number of active NGOs and civil society stakeholders in Karachi which will be keenly interested in the project, especially the implementation of investment subprojects. Other stakeholders are the elected local government councils and representatives and various government agencies such as GoS departments, cantonment boards, SSWMB etc.

The following mechanisms are provided in the project: Firstly, a systematic process of citizen engagement and consultation has been embedded in the performance-based grant component, whereby all LCs will have to regularly consult all relevant stakeholders, including and especially women, on investment sub-projects proposed for project financing. Secondly, systems for grievance redress and citizen complaint tracking are being introduced or strengthened at all LCs to give citizens avenues to share concerns. Third, the SMF provides further guidance for citizen engagement (including for consultation and information dissemination) and includes a framework for stakeholder participation and community engagement as well as guidelines for strengthening the grievance redress mechanism (GRM) for the project. The RPF also provides guidance for consultation and disclosure to ensure that for each sub-project identified as having involuntary resettlement impacts, stakeholders who are directly or indirectly involved in the project (including PAPs, marginalized / vulnerable beneficiary groups, civil society etc.) are meaningfully consulted throughout the project cycle and provided information regarding safeguards plans.

The project aims to institutionalize GRM in LCs through a two-tier approach to GRM. Firstly, the project will have a separate project-specific GRM for any grievances related to subprojects implemented by LCs and compliance with the project's EMF and SMF in their implementation, in line with the Bank's requirements and as per the guidelines in the EMF and SMF. This GRM will be set up at the start of project implementation, before subprojects are executed. This will respond to queries, receive suggestions and address grievances about any irregularities in the application of the EMF and SMF. Second, under PMs as part of performance grants, LCs will be incentivized to develop GRM / citizen complaint referral systems for all services provided by LCs to their citizens. This will be wider in scope than project-financed interventions, and will also incrementally expand LCs' capacity to respond to all grievances of their citizens, including those related to AED. KMC's existing system will be strengthened and similar systems will be established in other LCs. These LC-wide GRMs, once operational, can also be integrated with the project-specific GRM for subprojects, enabling it to receive all relevant grievances. Further, following recent experiences of the ongoing KNIP, the GRM systems may consider receiving grievances that are not relevant to the project or the LC and refer them to other relevant agencies.



B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
08-Mar-2019	13-May-2019	

"In country" Disclosure

Pakistan

13-May-2019

Comments

Document disclosed on website of Local Government Department, Govt of Sindh

Resettlement Action Plan/Framework/Policy Process

Date of receipt by the Bank	Date of submission for disclosure
08-Mar-2019	13-May-2019

"In country" Disclosure

Pakistan

13-May-2019

Comments

Document disclosed on website of Local Government Department, Govt of Sindh

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?

Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?

Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?

Yes

OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?

Yes



Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?

Yes

OP/BP 4.12 - Involuntary Resettlement

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?

Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?

Yes

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Yes

Have costs related to safeguard policy measures been included in the project cost?

Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

Yes

CONTACT POINT

World Bank

Yoonhee Kim
Sr Urban Economist

Namoos Zaheer



Senior Financial Sector Specialist

Borrower/Client/Recipient

Islamic Republic of Pakistan

Implementing Agencies

Local Government Department, Government of Sindh

Fahim Junejo

Director M&E

faheem.junejo1@gmail.com

Province of Sindh

Naheed S. Durrani

Chairman P&D Board

irfan.planner@gmail.com

Excise & Taxation Department, Government of Sindh

Shabir Shaikh

DG Excise & Taxation

info@excise.gos.pk

Investment Department, Government of Sindh

Ahsan Mangi

Secretary

info@sbi.gos.pk

FOR MORE INFORMATION CONTACT

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 473-1000

Web: <http://www.worldbank.org/projects>



APPROVAL

Task Team Leader(s):	Yoonhee Kim Namoos Zaheer
----------------------	------------------------------

Approved By

Safeguards Advisor:	Maged Mahmoud Hamed	14-May-2019
Practice Manager/Manager:	Catalina Marulanda	14-May-2019
Country Director:	Melinda Good	15-May-2019
